

## Message Text

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ORIGIN ARA-14

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TAGS: PDIP, PEPR, XR

SUBJECT: ARA WEEKLY HIGHLIGHTS - MAY 11-17

1. MEXICAN PRESIDENT VISITING SOVIET UNION -- MEXICAN  
PRESIDENT LOPEZ PORTILLO IS VISITING THE SOVIET UNION ON  
MAY 17-25. MEXICO'S OBJECTIVES APPEAR TO BE MODEST;  
ACCORDING TO FOREIGN SECRETARY ROEL, THE CHIEF TOPICS  
WILL BE AGRICULTURE, ENERGY, FOOD, AND BILATERAL TRADE.  
SOVIET PLANS TO ADHERE TO PROTOCOL II OF THE TREATY OF  
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TLATELOLCO ARE ALSO LIKELY TO BE DISCUSSED. IN ADDITION,  
THE TWO SIDES ARE EXPECTED TO CONTINUE TALKS ON A PROPOSED  
FOUR-WAY PETROLEUM SWAP WITH SPAIN AND CUBA. WITH THE  
MOSCOW TALKS IN MIND, THE MEXICANS WERE VERY INTERESTED IN  
DISCUSSING A RANGE OF INTERNATIONAL ISSUES DURING  
SECRETARY VANCE'S RECENT VISIT TO MEXICO; AT THE MEXICANS'  
REQUEST WE SUGGESTED SOME SPECIFIC POINTS THEY MIGHT WANT

TO RAISE IN MOSCOW. AT THE SAME TIME, THE MEXICANS SEE THEIR PRESIDENT'S VISIT AS A DEMONSTRATION OF MEXICO'S INDEPENDENT FOREIGN POLICY; SUBSEQUENT VISITS ARE PLANNED TO THE PRC, JAPAN AND IRAN.

2. MRS. CARTER ATTENDS INAUGURATION OF COSTA RICAN PRESIDENT - MRS. CARTER HEADED THE 8-MEMBER U.S. DELEGATION

TO THE MAY 8 INAUGURATION OF RODRIGO CARAZO AS PRESIDENT OF COSTA RICA. SHE RECEIVED A PARTICULARLY WARM WELCOME; WHEN THE U.S. DELEGATION ENTERED THE NATIONAL STADIUM FOR THE INAUGURAL CEREMONY, THEY RECEIVED A ROUND OF APPLAUSE SECOND ONLY TO THAT ACCORDED CARAZO. CARAZO EXPRESSED HIS APPRECIATION FOR MRS. CARTER'S ATTENDANCE. BY HOSTING HIS FIRST BREAKFAST IN THE CASA PRESIDENCIAL IN HER HONOR. ASSISTANT SECRETARY TODMAN HELD DISCUSSIONS ON FISHERIES WITH THE NEW COSTA RICAN GOVERNMENT (WHOSE 29-YEAR-OLD FOREIGN MINISTER IS THE YOUNGEST IN THE HEMISPHERE), AND MET WITH THE NICARAGUAN FOREIGN MINISTER ON THE SITUATION IN THAT COUNTRY. TODMAN REITERATED OUR POSITION THAT THE INTER-AMERICAN HUMAN RIGHTS COMMISSION SHOULD BE INVITED TO NICARAGUA AT AN EARLY DATE.

3. CARIBBEAN GROUP - LALO VALDEZ, JOHN BUSHNELL AND OTHERS ARE IN PARIS THIS WEEK FOR THE IBRD-SPONSORED MEETING OF THE POTENTIAL DONORS UNDER THE CARIBBEAN SECRET

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GROUP FOR COOPERATION IN ECONOMIC DEVELOPMENT. IT'S A PREPARATORY SESSION FOR THE MEETING OF THE ENTIRE GROUP IN WASHINGTON IN MID-JUNE. REPORTS OF THE RESULTS OF THE CURRENT SESSION WILL BE FORTHCOMING SHORTLY.

4. FULL AUSTERITY REGIME IMPOSED IN PERU - IN AN UNEXPECTED MOVE ON THE EVENING OF MAY 14, THE PERUVIAN GOVERNMENT ANNOUNCED SIGNIFICANT INCREASES IN THE CONTROLLED PRICES OF GASOLINE AND OTHER FUELS, BUS FARES AND ESSENTIAL FOODSTUFFS. THESE MEASURES FOLLOWED ON THE RESIGNATION OF THE MINISTERS OF FINANCE, INDUSTRY AND INTERIOR, THE FIRST TWO BEING REPLACED BY CIVILIAN ECONOMISTS OF RECOGNIZED HIGH CALIBER. WITH THE EXCEPTION OF A FINAL FLOATING OF THE EXCHANGE RATE, THESE MEASURES APPEAR TO COMPLETE THE ECONOMIC STABILIZATION PACKAGE CALLED FOR BY THE IMF. THESE KEY AUSTERITY MEASURES SHOULD FACILITATE AN ACCOMMODATION WITH THE FUND AND WITH THE PRIVATE BANK SYNDICATE (FROM WHOM THE GOP IS SEEKING AN URGENTLY NEEDED BRIDGE LOAN TO GET THROUGH THE NEXT TWO MONTHS). FEARING THE POLITICAL EFFECTS, THE GOP HAD ORIGINALLY PLANNED TO WITHHOLD PROMULGATION OF AUSTERITY MEASURES UNTIL AFTER THE JUNE 4 CONSTITUENT ASSEMBLY

ELECTIONS. REACTION HAS BEEN PREDICTABLY ADVERSE, BUT SO FAR SCATTERED AND APPARENTLY WITHIN POLICE CAPABILITIES OF CONTROL. DISTURBANCES ARE POSSIBLE AND WE REMAIN CONCERNED BY THE POTENTIAL OF PERU'S ECONOMIC DEVELOPMENT ON THE DEMOCRATIZATION PROCESS. A WAGE HIKE HAS BEEN DECREED FOR PUBLIC AND PRIVATE SECTOR WORKERS TO AT

LEAST PARTIALLY OFFSET PRICE INCREASES. LABOR ORGANIZATIONS AND POLITICAL PARTIES HAVE NOT AS YET SPOKEN OUT ON THE MEASURES.

5. MEETING OF U.S.-BRAZIL SUB-GROUP ON TRADE - THE FIFTH ROUND OF CONSULTATIONS BY THE U.S.-BRAZIL SUB-GROUP ON TRADE TOOK PLACE MAY 8-9 IN BRASILIA. THE U.S.

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DELEGATION WAS HEADED BY AMBASSADOR ALAN WOLFF, DEPUTY SPECIAL TRADE REPRESENTATIVE. THE SUB-GROUP DISCUSSIONS CENTERED ON THE PROGRESS OF THE MULTILATERAL TRADE NEGOTIATIONS, PARTICULARLY PROSPECTS FOR TARIFF REDUCTION. IMPORT RESTRICTIONS AND EXPORT SUBSIDIES, AND SEVERAL BILATERAL TRADE PROBLEMS WERE ALSO EXAMINED. BOTH AMBASSADOR WOLFF AND THE CHAIRMAN OF THE BRAZILIAN DELEGATION, IN THEIR FINAL STATEMENTS, ASSESSED THE TALKS AS "VERY FRUITFUL AND POSITIVE" AND PREDICTED THAT THE PROGRESS MADE AT THE MEETINGS WOULD LEAD TO SIGNIFICANT RESULTS IN TALKS TO BE HELD BETWEEN BRAZIL AND THE U.S. DURING JUNE AT MTN IN GENEVA. ON THE OTHER HAND, THERE HAS BEEN PREDICTABLY ADVERSE REACTION TO SOME ASPECTS OF TREASURY ASSISTANT SECRETARY BERGSTEN'S REMARKS ON BRAZIL/U.S. ECONOMIC RELATIONS. VANCE

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